Propane

Superior Plus Income Fund

Annual Report 2002

trustworthy assets.

superior returns.

WHAT'S IN A NAME?

In 2002, the Superior Plus Income Fund continued its outstanding track record of delivering superior returns to unitholders. With the acquisition of the pulp chemicals business, Superior also delivered on its growth strategy and has entered a new era of sound diversification outside of the propane distribution business. Our strength, success and growth strategy is well reflected in our new name.

Propane Retailing

Superior Propane has been in business since 1951 and is Canada's largest distributor of propane, related products and services. The integration of ICG Propane in the fall of 2001 further improved operational efficiency and allowed Superior Propane to expand its value added product offerings to a larger customer base.

Number of Employees:
Approximately 1,800

Annual Sales Volume:
Approximately 1.7 billion litres of propane

Key Strengths:
- Leading competitive position
- Geographic and end-use diversification across approximately 300,000 customers
- Stable, growing financial results

www.superiorpropane.com

Pulp Chemicals

ERCO Worldwide has been in business since the 1940s and is the second largest producer of sodium chlorate in North America. It also has the world's largest installed base of modern chlorine dioxide generators and related technology for the pulp and paper industry, and leads development of water treatment generators and technology.

Number of Employees:
Approximately 400

Annual Sales Volume:
Approximately 470,000 metric tonnes of sodium chlorate

Key Strengths:
- Leading competitive position
- Simple and safe manufacturing process
- Stable financial performance with growth potential

www.ercoworldwide.com

Natural Gas Retailing

Superior Energy Management commenced operations in June of 2002, providing natural gas supply services, predominantly to commercial and industrial markets in Ontario.

Number of Employees:
Approximately 10

Annual Sales Volume:
Approximately 40,000 GJ/d of natural gas

Key Strengths:
- Stable contract based business
- Complementary to propane retailing
- Good growth opportunities

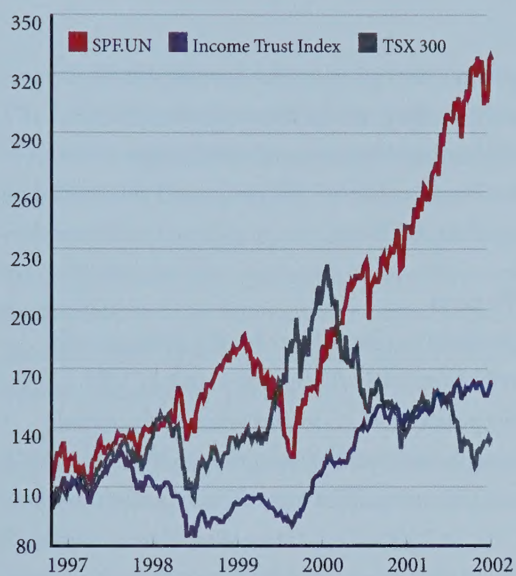
www.superiorenergymanagement.com

Financial Highlights

At Superior Plus, we are focused on growing distributions and delivering value to our customers and investors. Our strategy is to continue to deliver superior returns for 2003 and beyond.

Total Return Since Inception

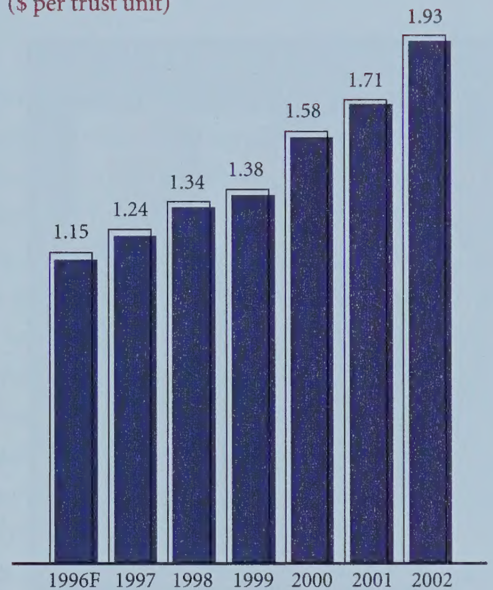
October 8, 1996 to December 31, 2002



Superior performance relative to the TSX and the income fund universe.

Cash Distributions Relating to Operations

($ per trust unit)



Distributable cash flow per trust unit in 2002 increased by 13% compared to the prior year and has increased every year since inception of the Fund in 1996.

SPF.UN

(millions of dollars except per unit values)

Five year related historical information for the propane retailing and pulp chemicals businesses is provided on page 39.

	Years Ended December 31				
	02	**01**	**00**	**99**	**98**
Cash flow from operations	101.4	89.3	79.3	68.7	68.3
Maintenance capital expenditures, net	(3.1)	(4.1)	(6.8)	(5.7)	(9.6)
Distributions to debentureholders	(7.7)	(6.9)	–	–	–
Distributable cash flow	90.6	78.3	72.5	63.0	58.7
Distributable cash flow per trust unit	$ 1.93	$ 1.71	$ 1.58	$ 1.38	$ 1.34

Distributable cash flow which is used throughout this document, is a term used in accordance with the definition contained in Note 1 to the consolidated financial statements. This measure does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies.

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Management's Letter

Delivering superior value.

Superior Plus Inc. Management: **W. Mark Schweitzer,** *Executive Vice President, Corporate Development and C.F.O.;* **Grant D. Billing,** *Executive Chairman;* **Geoffrey N. Mackey,** *President and C.E.O.*

"In 2002, Superior Propane used its financial strength and access to capital markets to diversify the Fund. Superior acquired ERCO Worldwide, a leading provider of chemicals and technology for the pulp and paper and water treatment industries, and launched a natural gas retailing business."

2002 was a pivotal year for the Superior Plus Income Fund, in which we increased distributions for the sixth straight year, diversified beyond the propane business, adopted a new name reflecting our larger and more diverse enterprise and achieved a market capitalization of $1.3 billion.

Exceptional Track Record

Superior grew distributions to unitholders for the sixth straight year, generating distributions of $1.93 per trust unit in 2002 compared to the prior year's $1.71. Coupled with a substantial growth in market value from $10.95 at inception to $19.68 at December 31, 2002, initial unitholders have received a total return on investment of 227%, or 20.9% on an annualized basis, versus the TSX300's annualized total return of 4.8% over the same period.

Higher distributions earned in 2002 reflect a full year of benefits gained from integrating ICG Propane and Superior Propane's businesses, augmented by ongoing optimization of the combined propane operating network. The retail propane business provides a solid foundation for stable returns.

Diversifying the Fund

Equipped with a strong balance sheet and access to capital markets, Superior began to seriously consider acquisition opportunities in 2001, focusing on businesses that were similar to the propane retailing business and appropriate for an income fund, including:

- Strong competitive position;
- Stable and sustainable operating cash flows;
- Low and predictable maintenance capital requirements;
- Experienced operating management capability; and
- Existing size and/or growth potential to provide meaningful business diversification.

In mid-December 2002, Superior acquired ERCO Worldwide, one of the world's largest producers of sodium chlorate, for $584.5 million. Sodium chlorate is used mainly to generate chlorine dioxide to bleach wood pulp used in the production of high quality paper products. ERCO is the world's largest provider of modern chlorine dioxide generators and related technology for the pulp and paper industry and is a leader in developing new generators and technology for the water purification and food treatment industries. The business generates strong cash margins,

consistent cash flow and has good growth potential. The full year contribution from the pulp chemicals business is expected to increase 2003 unitholders' distributions. The ownership of two mature businesses with excellent financial performance records, leading market positions, low operating risk profiles and predictable and low maintenance capital requirements, provide sound diversification and reduces the Fund's overall business risk profile.

Also in 2002, Superior launched its natural gas retailing business — Superior Energy Management — with an experienced team able to take advantage of opportunities to service the residential, commercial and light industrial natural gas market in Ontario. Natural gas retailing is a stable, profitable, contract-based business with low capital requirements. The business is complementary to Superior's propane distribution business, and is expected to be profitable in 2003.

The Fund's market capitalization has risen significantly to $1.3 billion at the end of December 2002 and enjoys excellent liquidity with over 22 million trust units traded in 2002. In December, Superior completed a $250 million, 8% convertible debenture offering with net proceeds used to finance a portion of the ERCO acquisition. The remaining acquisition cost was funded by a $340 million credit facility, which we plan to refinance in 2003 through a combination of equity and long-term debt. Our long-term strategy includes evaluating additional opportunities and completing accretive acquisitions while maintaining a strong financial position.

Our success reflects the integrity and hard work of our skilled and experienced workforce of over 2,200 people. Superior's executive management team is strongly aligned with unitholders through a direct 10% ownership in the Fund's trust units and an annual incentive fee based on free cash flow distributed by Superior to the Fund in excess of specified thresholds. The trustees of the Fund and independent directors of Superior are currently considering the internalization of management services in order to eliminate future management incentive fees, improve the governance structure of Superior and to further align the interests of management and the Fund.

ERCO Worldwide plant – Buckingham, Quebec.

Our new name – **Superior Plus Income Fund** – reflects an unwavering commitment to unitholders, customers and employees to continue adding superior value.

Grant D. Billing
Executive Chairman,
Superior Plus Inc.

Geoffrey N. Mackey
President & C.E.O.

February 28, 2003

Operations Review

Propane efficiencies drive value.

John W. Cooper, President
Superior Propane

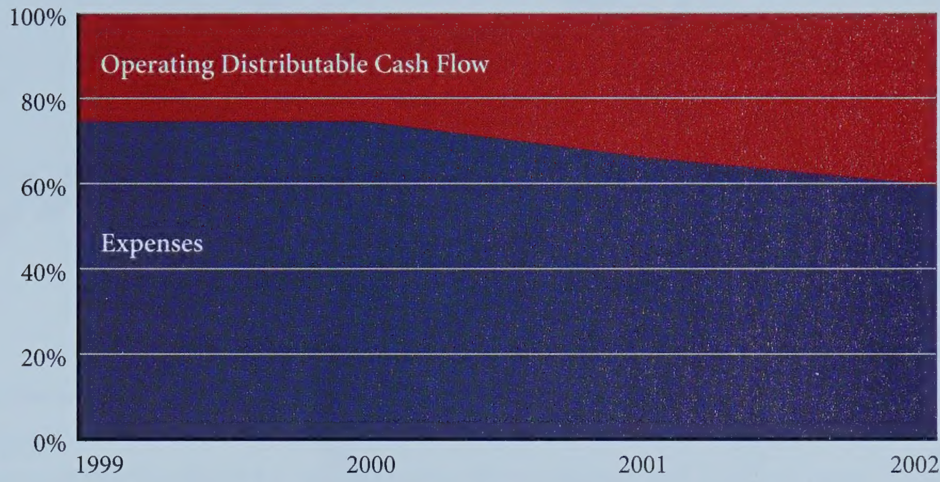
"In 2002, we achieved substantial operating efficiencies and reduced our cost structure. Responding to changes in our business environment and working on customer growth are important priorities for 2003."

In 2002, Superior Propane achieved each of its goals. Full year benefits from the ICG merger savings, augmented by ongoing optimization initiatives, provided substantial operating and maintenance capital expenditure savings. Today, the blend of best practices and expansion of our product offerings and services to a larger customer base is enabling us to provide superior products and services at competitive costs.

Propane and alternate energy supply and demand conditions and dynamics are determined locally. The distribution of propane to customer installations requires local knowledge and management. Our business is organized into 55 geographic market operations, which in turn are managed through 10 geographic regions across Canada. Market managers have direct responsibility for customer service, pricing, sales and distribution. Our success is predicated upon the overall profitability of each market. Nearly 1,800 well trained and dedicated people service approximately 300,000 customers from 158 locations coast-to-coast. To ensure easy access by customers to Superior's services, two call centres located in Laval, Quebec and Dartmouth, Nova Scotia provide customer support and services on a 24/7 basis. We strive to react quickly and efficiently to customer needs.

Superior provides reliable propane deliveries to the most remote locations. In this mature and highly competitive industry, we differentiate ourselves from other propane retailers by providing "one stop shopping" service capabilities and the opportunity to choose the service and pricing options that our customers require and value. In addition to offering propane consuming appliances and equipment, Superior provides installation and a variety of other service programs. Our customers have access to a range of energy management programs, including automatic delivery service, equal pay and fixed price fuel programs as well as equipment service contracts. These capabilities, combined with our brand reputation earned over the past 52 years, continue to fuel Superior's ongoing growth and success.

Expenses as a Percentage of Operating Distributable Cash Flow



Efficiency savings and cost reductions drive value.

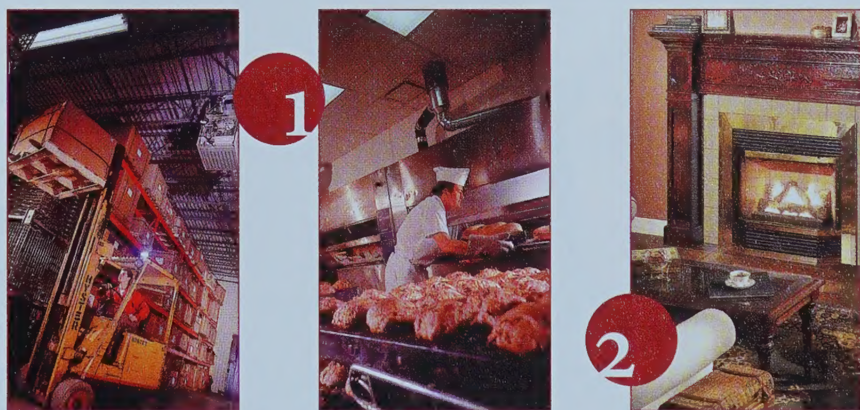
SUPERIOR IS RECOGNIZED AS CANADA'S LEADING NATIONAL PROVIDER OF PROPANE, RELATED PRODUCTS AND SERVICES.

Commercial and industrial demand fundamentals have been strong in 2002. 1

Weather conditions across Canada in 2002 were 8% colder on average than 2001, resulting in strong residential, agricultural and other heating demand. 2

Customer Growth and Operational Efficiency

Our core business consists of selling propane and related products and services for use in commercial, industrial, residential, agricultural and automotive applications. Propane is an extremely portable, versatile and economical fuel source and preserves the environment by reducing harmful emissions.



The geographic diversity and breadth of end-use customer segments result in very stable gross profits. (See detailed analysis on pages 11 to 13.) Growth opportunities exist in the medium-term from emerging distributed power applications, such as micro-turbine, energy peak shaving and fuel cell applications. Organic growth is modest in the traditional end-use segments.

Our strategy to grow customer sales includes the further expansion of our fixed pricing options to non-heating load customers and the expansion of our service business, including oilfield service offerings and barbecue cylinder exchange programs. Improving customer service processes and increasing operational efficiencies remain key priorities.

Operations Review

Pulp chemicals. A trustworthy acquisition with growth potential.

ERCO Worldwide develops and sells modern technology and equipment as well as the sodium chlorate required as feedstock in the production of chlorine dioxide that is used for the bleaching of wood pulp to produce high grade paper products. The manufacture of sodium chlorate is a simple and safe process. The use of chlorine dioxide as a bleaching agent has significant environmental advantages. The mandated conversion to elemental chlorine-free (ECF) bleaching processes in the North American pulp and paper industry is slowly being adopted on a global basis. Sodium chlorate sales volumes are relatively insensitive to the more volatile pulp commodity pricing trends. ERCO's technology is protected by over 225 patents worldwide. We provide engineering design, equipment specification and procurement, on-site technical assistance, operator training and plant start-up services as well as ongoing 24/7 technical support and services, spare parts and licenses to our valued customers.

Paul S. Timmons, President
ERCO Worldwide

"Our modern technology blended with our experience and reputation puts us at the forefront of new developments, giving us a unique competitive edge, including early access to new market trends."

Pulp Chemicals plant at Buckingham, Quebec.

Hopper railcar loading at Vancouver, British Columbia.

Plant Locations across North America and Their Products

- 460,000 MT sodium chlorate capacity from six plants
- 8,500 MT sodium chlorite capacity from two plants
- 133,000 MT chlor alkali product capacity at Saskatoon
- 9,000 MT calcium hypochlorite capacity at Saskatoon

ERCO is the world's largest supplier of modern chlorine dioxide generators and related technology and the second largest supplier of sodium chlorate in North America. In addition, we develop smaller generators and technology for the water treatment industry. With the expected start-up of additional sodium chlorite capacity in Thunder Bay, Ontario, during the first half of 2003, we will be the largest producer of sodium chlorite in North America, which is increasingly being used as an environmentally preferable disinfectant for industrial and municipal water treatment and as a biocide/disinfectant for food processing and sanitization applications. We also produce chlor alkali products, including high grade caustic soda, hydrochloric acid and chlorine, that are used in various industrial applications as well as calcium hypochlorite, which is used as a sanitizing agent in swimming pools.

Pulp Chemicals plant in Valdosta, Georgia.

ERCO's manufacturing plants are strategically located close to major rail terminals and have access to a reliable supply of electricity and salt, which are the two most important raw materials. Production can be adjusted across the facilities to optimize energy costs. The simple and safe manufacturing process and a low cost structure result in strong cash margins and consistent cash flow. (See detailed analysis on page 14.)

Expanding into New Markets

The sodium chlorate industry in North America is mature and growth is expected to come from developing economic regions of the world, as these countries adopt ECF standards and increase consumption of paper and related products. New regulations, aimed at helping municipalities minimize the use of chlorine as a disinfectant in drinking water, are expected to result in increased use of sodium chlorite over the next several years. ERCO is well positioned to take advantage of these opportunities.

Operations Review

Natural gas marketing.

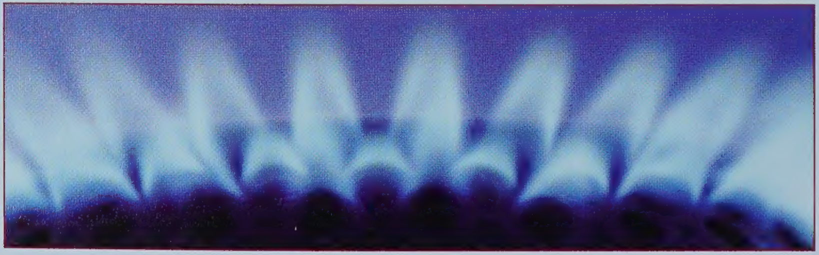
Gerald M. Haggarty, President
Superior Energy Management

"We are focused on customer satisfaction and growth. We work with our customers to reduce and control their energy commodity costs through a fixed price plan that fits their budget and energy needs."

The marketing of natural gas in the deregulated Ontario market provides Superior with a unique and exciting opportunity to create value and growth with minimal investment. Since 1993, gas marketers in Ontario have been able to aggregate residential, commercial and industrial customers for the supply of natural gas, providing a variety of natural gas procurement services, including fixed or variable pricing options for terms of one to five years. Natural gas retailing is a stable, profitable, contract-based business with low capital requirements and is complementary to Superior's propane distribution business.

In June 2002, Superior hired an experienced management team which operates under the trade name, Superior Energy Management. With over 50 years of combined experience in the natural gas business, this management group is well versed in virtually all areas of natural gas retailing. Superior's strong credit capability, brand recognition and existing producer/wholesaler relationships, provide competitive advantages. Our strategy is to focus predominantly on the under-serviced commercial and light industrial markets by providing customers with stable and predictable energy costs.

In early October 2002, Superior Energy Management established a critical mass by purchasing a number of customer contracts from Engage Energy Canada. We expect steady, profitable growth through a continued marketing program for customer accounts over the next several years.



Management's Discussion and Analysis

Certain information included herein is forward looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary materially from those expected.

The Fund holds a 100% interest in Superior consisting of investments in common share equity (the "Common Shares"), and $721.2 million unsecured subordinated notes due October 1, 2026 that bear interest at a weighted average interest rate of 13.25% (the "Shareholder Notes"). The distributable cash flow of the Fund is solely dependent on the results of Superior and is derived from dividends or return of capital on the Common Shares and interest earned on the Shareholder Notes.

Distributable Cash Flow

Distributable cash flow (cash generated from operations before changes in net working capital, less maintenance capital expenditures and distributions on the convertible unsecured subordinated debentures (the "Debentures")), reached $90.6 million in 2002 or $1.93 per average trust unit ($1.88 per trust unit on a diluted basis), a 13% increase over distributable cash flow of $1.71 per trust unit generated in 2001. The major contributors to the increase were: improved operating efficiencies from the full year impact of the 2001 integration of ICG Propane ("ICG"); reduced financing costs; and a positive impact from the 13 days that the pulp chemicals business was owned by Superior in 2002. Net earnings before distributions to unitholders were $68.8 million or $1.29 per trust unit on a basic and diluted basis, compared to $37.4 million or $0.67 per trust unit in 2001. The increase was attributable to the same factors that improved distributable cash flow, but was also impacted by the change in accounting policy for goodwill. (See Note 3(a) to the Consolidated Financial Statements.) A more detailed discussion and analysis of the financial and operational results of Superior's businesses is provided below.

Cash Distributions

Effective July 2002, the Fund increased the frequency of its cash distributions from quarterly to monthly. The Fund distributes to holders of trust units ("Unitholders"), interest earned on the Shareholder Notes and dividends or return of capital declared on the Common Shares, after distributions to holders of Debentures of the Fund ("Debentureholders"), and provision for administrative expenses and reserves of the Fund. In 2002, in recognition of the continued improved operating results, the quarterly distribution for the second quarter was increased by 8% to $0.43 per trust unit, where it remained on an equivalent monthly basis ($0.143 per trust unit) for the balance of the year. Any remaining undistributed cash flow in respect of a fiscal year is distributed in the following year as part of the Fund's March distribution to Unitholders. For income tax purposes, the yearly distribution of $1.988 per trust unit is classified as other income of $1.1657 per trust unit, a return of capital of $0.0152 per trust unit and a dividend of $0.8071 per trust unit. A summary of cash distributions since inception and related tax information is posted on the Investor Relations section of Superior's website at www.superiorplus.ca. Effective January 2003, the Fund increased its regular monthly distribution to $0.16 per trust unit. The cash distribution declared by

the Fund for March 2003 is $0.40 per trust unit, of which $0.24 per trust unit represents the remaining undistributed cash flow generated by Superior in 2002. For 2003, approximately $1.40 per trust unit is expected to be distributed in the form of other income, $0.05 in the form of return of capital, with any remainder expected to be classified as a taxable dividend.

Integration of ICG

On January 31, 2003, the Federal Court of Appeal rendered a favourable decision, dismissing in its entirety, the Competition Bureau's latest appeal with respect to the Superior/ICG merger. In its decision, the Federal Court of Appeal confirmed that the Competition Tribunal, in its re-determination decision rendered on April 4, 2002, properly followed the direction of the Federal Court of Appeal and correctly applied the facts of the case to the law, permitting the Superior/ICG merger on the basis that the efficiency gains from the merger are greater than and offset the effects of the potential lessening of competition.

Superior acquired ICG, a major retail propane distributor on December 7, 1998. Upon removal of the Competition Tribunal's Hold-Separate Order in September 2000, Superior and ICG commenced the merger of their operations. Superior had an existing operating presence in substantially all of the markets where ICG operated, providing similar services to similar customers. Accordingly, significant integration opportunities existed to reduce costs by removing duplicate distribution and business infrastructure. In addition, the merger allowed Superior to provide enhanced customer service by leveraging customer service programs and processes across a combined customer base. The first phase of integration, completed in 2001, targeted the integration of Superior and ICG's operational infrastructure and customer base, realizing significant reductions in the combined business cost structure.

For 2002, the focus of the propane retailing business operating under the Superior Propane trade name ("Propane Retailing Business" or "Superior Propane") was on optimizing its combined operations. Work began to enhance delivery routes and customer scheduling processes on a market-by-market basis in order to realize the additional efficiency potential provided by the increased post-integration customer densities. Work has also continued on streamlining and expanding the level of customer service support provided by Superior Propane's call centres. The catalyst for growth in 2002 distributable cash flow was the full year impact of the ICG integration and further optimization initiatives undertaken in 2002.

For 2003 and beyond, distributable cash flow growth of the Propane Retailing Business is expected to moderate given the mature nature of the propane distribution industry and its leading market share in Canada. In the fall of 2001, it was recognized that the next platform of visible growth in the Fund's distributable cash flow would need to come from outside the Propane Retailing Business. Superior then began to actively consider acquisition opportunities with risk profiles suitable for an income fund structure, intending to finance any acquisition in a manner that would maintain Superior's existing financial strength.

In June 2002, Superior entered the natural gas retailing business in Ontario, a business complementary to its existing Propane Retailing Business, by hiring an experienced management team. Sales commenced in October and by year-end 2002, the business was operating at a cash break-even level and is expected to generate positive cash flow in 2003.

Pulp Chemicals Acquisition

On December 19, 2002, Superior closed the acquisition of the pulp chemicals business of Sterling Chemicals, Inc. for $584.5 million on a debt-free basis. The pulp chemicals business will be operated as ERCO Worldwide (the "Pulp Chemicals Business" or "ERCO Worldwide"), a division of Superior. The business has been a leading provider of chemicals and technology for the pulp and paper and water treatment industries since the 1940s. It is the second largest producer of sodium chlorate in North America and markets its generator technology under the ERCO brand name. The acquisition is an important step in the growth plan for Superior and meets its objectives outlined previously:

- ERCO Worldwide has a strong competitive position in a mature industry with a track record of stable cash flow;
- The business has low and predictable maintenance capital requirements;
- ERCO Worldwide has several growth opportunities;
- The management group has been in place for several years and will continue to manage the business; and
- The acquisition is expected to be accretive to 2003 cash distributions on a per trust unit basis.

The acquisition of the Pulp Chemicals Business provides meaningful diversification to Superior. On a proforma basis, approximately 60% of Superior's operating distributable cash flow is generated from the Propane Retailing Business and 40% from the Pulp Chemicals Business.

For details on the financing of this acquisition see the "Liquidity and Capital Resources" section of this report.

Superior Propane – Operating Results

Condensed operating results for 2002, 2001 and the last five year average are provided in the table below. Selected historical information for Superior Propane for a five year period is provided on page 39 of this Annual Report.

Superior Propane – Condensed Operating Results

(millions of dollars except per litre amounts)

	2002		2001		Last Five Year Average	
	$	¢/litre	$	¢/litre	$	¢/litre
Gross profit						
Propane sales	250.4	14.8	259.4	15.0	265.5	13.7
Other services	40.3	2.4	41.3	2.4	44.1	2.3
Total gross profit	290.7	17.2	300.7	17.4	309.6	16.0
Less:						
Cash operating & administration and cash tax costs	(177.6)	(10.5)	(196.7)	(11.4)	(208.2)	(10.8)
Cash generated from operations before changes in net working capital	113.1	6.7	104.0	6.0	101.4	5.2
Maintenance capital expenditures, net	(3.0)	(0.2)	(4.1)	(0.2)	(8.7)	(0.4)
Operating distributable cash flow	110.1	6.5	99.9	5.8	92.7	4.8
Propane volumes sold (millions of litres)		1,688		1,733		1,941

Operating distributable cash flow for Superior Propane reached $110.1 million in 2002, an increase of $10.2 million (10%) over 2001, as improved operating efficiency was partially offset by the impact of lower sales volumes.

Total gross profit of $290.7 million in 2002 decreased from 2001 levels by $10.0 million or 3%, due to lower auto sales volumes and a 1% decline in average sales margins.

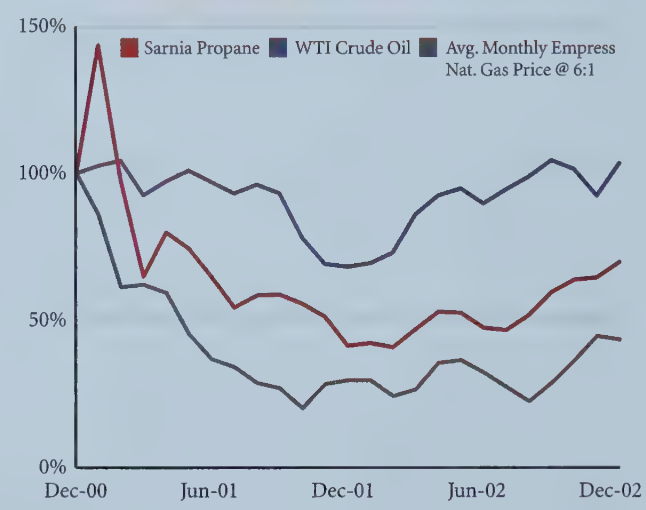
Auto sales volumes in 2002 declined by 14% from 2001 levels (historically auto sales volumes have declined by 15%-20% a year), which accounted for $6.8 million of the decline in total propane gross profits and was the primary reason total propane sales volumes fell by 45 million litres or 3% from 2001 levels to 1.688 billion litres.

Industrial sales volumes were consistent with prior year sales levels, as the impact of an improving economy and colder weather in the second and fourth quarters offset the impact of a slow economy and warm weather in the first quarter of the year. Colder weather helped increase industrial heating demands such as mine heating and oilfield heaters. The improving economy and the introduction of a new sales initiative helped improve forklift truck sales volumes throughout the year.

Heating sales volumes were consistent with 2001 levels, as higher residential, commercial and agriculture sales offset a reduction in construction demand, due to the completion of several large projects in Alberta early in 2002. Temperatures were 8% colder on average across Canada than in 2001 (5% colder than the last five years average) particularly in Eastern Canada, and was the principal driver for the increase in residential and commercial sales demand. Agriculture sales were higher than the prior year due to good crop drying demand and higher heating requirements arising from the colder weather. Approximately 50% of Superior Propane's sales volumes are for heating-related applications and 50% are related to economic activity levels.

Increasing wholesale propane costs throughout 2002 contributed to slightly lower average sales margins, resulting in a $2.2 million decline in gross profits. Wholesale propane prices remained at relatively modest levels until midway through the third quarter of 2002, when they began to steadily rise, led by crude oil and natural gas prices. While propane remained competitive with alternative fuels in 2002, consumer energy costs are rising, which impacts propane margins and demand. Sales margins typically decline during periods of rising propane commodity prices due to delays in passing on prices to customers and conversely, sales margins typically increase when propane commodity prices decline. The chart below shows the relative change in crude oil, natural gas and wholesale propane prices for the 24 month period ended December 31, 2002.

Relative Change in WTI Crude Oil and Natural Gas vs. Sarnia Wholesale Propane Prices



Gross profit generated by other services was $40.3 million in 2002, a decrease of 2% from 2001 levels, as reduced equipment sales, rentals and installation revenue were partially offset by increased fixed price propane premium revenues.

Superior Energy Management commenced natural gas sales in October 2002 to residential, commercial and light industrial customers in the Ontario marketplace. Included in Superior Propane's operating distributable cash flow is a net loss of $0.3 million for the year from the natural gas retailing business, comprised of other sales gross profit of $0.4 million and cash operating and administrative costs of $0.7 million. By year-end, Superior Energy Management was operating at a cash break-even level and is expected to generate positive cash flow in 2003.

Gross profit generated in 2002 was within 6% of the five year average and has not deviated by more than 6% in each of the last five years, reflecting Superior Propane's considerable operational and customer diversification. Superior Propane's operational risks are well distributed across its 158 market and satellite locations, with the largest 10 markets representing approximately 39% of its operating cash flow. Superior Propane's customer base approaches 300,000 and is well diversified geographically and across end-use applications. Superior Propane's largest customer contributed approximately 2% of gross profit in 2002.

Superior Propane Annual Volumes and Gross Profitability

By End Use Application

	Twelve Months Ended December 31			
	2002		2001	
Applications:	Volume	GP	Volume	GP
Residential	207.1	62.4	202.5	62.8
Commercial	397.0	78.3	403.4	81.9
Agricultural	126.2	15.1	121.7	12.2
Industrial	670.9	69.3	672.5	74.9
Automotive	286.6	25.3	332.8	27.6
Other services		40.3		41.3
	1,687.8	290.7	1,732.9	300.7
Average margin		14.8		15.0

Superior Propane Annual Volumes and Gross Profitability

By Region

	Twelve Months Ended December 31			
	2002		2001	
Regions:	Volume	GP	Volume	GP
Atlantic	109.5	28.3	114.1	28.9
Quebec	294.9	52.7	292.4	54.5
Ontario	401.6	81.9	414.6	68.6
Sask./Man.	222.0	30.0	182.0	29.8
Alberta/NWT	425.3	61.6	461.3	76.1
BC/Yukon	234.5	36.2	268.5	42.8
	1,687.8	290.7	1,732.9	300.7
Average margin		14.8		15.0

Volume: Volume of propane sold (millions of litres)
GP: Gross Profit (millions of dollars)
Average margin: Average propane sale margin (cents per litre)

Cash operating, administrative and tax costs were $177.6 million in 2002, down $19.1 million or 10% from the prior year, and significantly outpacing the 3% decline in sales volumes. The impact of the prior year's integration savings, cost reduction initiatives undertaken in the first quarter of 2002 and delivery and dispatch efficiencies contributed to the improved cost performance. In the table below are the key drivers of the structural cost savings. Cash taxes were $0.6 million (2001: $0.8 million) and were limited to federal large corporations tax. Cash taxes are expected to remain at similar levels in 2003.

Cost driver	Prior to Integrating ICG	End of 2002	% Reduction
Corporate offices	2	1	50%
Business systems	2	1	50%
Customer service call centres	7	2	71%
Operating locations	240	158	34%
Operating vehicles	1,165	915	21%
Full-time employees	2,045	1,581	23%

Net maintenance capital expenditures of $3.0 million were $1.1 million below 2001 levels as excess equipment capacity realized through delivery and dispatch efficiencies reduced net expenditure requirements during 2002. Net maintenance capital expenditures for 2003 are expected to remain at modest levels as customer routing optimization initiatives are expected to further improve asset productivity.

Other net capital proceeds of $4.6 million were generated during the year as assets rendered surplus by the ICG integration were sold and the proceeds were used to repay bank debt.

ERCO Worldwide

Superior purchased the Pulp Chemicals Business effective December 19, 2002 on a debt-free basis, for cash consideration of $584.5 million including transaction costs. The accounting for the acquisition is more fully described in Note 4 to the Consolidated Financial Statements. Since its acquisition on December 19, 2002, ERCO Worldwide has contributed $3.1 million of operating distributable cash flow. Performance during Superior's ownership period met expectations. ERCO Worldwide's condensed operating results for the years 2002 and 2001 are provided in the table below. In addition, selected historical information for the last five years is provided on page 39 of this Annual Report.

Maintenance capital expenditures have historically been stable, averaging $12.2 million over the last five years and are expected to be at modestly lower levels in 2003. In 2002, the Pulp Chemicals Business embarked on a five-year, cell replacement program at all six of its sodium chlorate plants. This initiative is expected to cost approximately $28 million, of which approximately $5 million has been spent to date. Cell replacement expenditures in 2003 are expected to be approximately $4 million. The cell replacements are expected to have an approximate 15 year economic life and provide improved operating efficiency and production and accordingly, will be considered as growth capital expenditures for purposes of determining distributable cash flow of the Fund. The construction of a second sodium chlorite plant in Thunder Bay, Ontario, is expected to be completed in the first half of 2003, which will more than double the business's existing sodium chlorite production capacity. Costs to complete the plant in 2003 are estimated at $3 million and will be considered growth capital for purposes of distributable cash flow calculations.

ERCO Worldwide – Condensed Operating Results

(millions of dollars except per metric tonne amounts)

	13 Days Ended December 31, 2002		Twelve Months Ended December 31 2002 (unaudited)		2001 (unaudited)	
	$	$/MT	$	$/MT	$	$/MT
Pulp Chemicals						
Revenue						
Chemical	10.0	584	332.0	611	318.0	591
Technology	0.5	29	29.9	55	33.8	63
Cost of sales						
Chemical	(5.4)	(315)	(172.4)	(317)	(165.5)	(307)
Technology	–	–	(9.0)	(17)	(6.7)	(12)
Gross profit	5.1	298	180.5	332	179.6	335
Less cash operating and administration	(1.9)	(105)	(85.8)	(158)	(75.1)	(139)
Cash generated from operations before changes in net working capital	3.2	193	94.7	174	104.5	196
Maintenance capital expenditures	(0.1)	(6)	(12.7)	(23)	(11.1)	(21)
Operating distributable cash flow	3.1	187	82.0	151	93.4	175
Chemical volumes sold (metric tonnes)	17,118		543,801		538,388	

Corporate

Interest costs were $2.8 million, a decrease of $5.7 million from 2001. Average floating interest rate levels in 2002 declined by approximately 30% (150 basis points) from 2001 levels and contributed the majority of the decline in interest costs. Refer to the Liquidity and Capital Resources section for further discussion of debt levels. Superior maintains a predominately floating interest rate profile. See Business Risks – Interest Rates.

Distributions to Debentureholders were $7.7 million, an increase of $0.8 million over 2001. The impact of the 8% Debentures due July 31, 2007 (the "Series 1 Debentures") outstanding for the full year (issued January 31, 2001), and the issuance of the 8% Debentures due November 1, 2008 (the "Series 2 Debentures") on December 17, 2002, was only partially offset by the conversion of $30.3 million of the Series 1 Debentures into trust units during the year. See Liquidity and Capital Resources section for further details.

Management incentive fees increased by $5.5 million commensurate with the improved distributable cash flow performance in 2002. (See Note 16 to the Consolidated Financial Statements for details on the Management Agreement.) A Special Committee has been established, which includes the Trustees of the Fund and the independent Directors of Superior, to consider the merits of internalizing the management functions of Superior, in order to eliminate future management fees, improve the governance structure of Superior and the Fund and to optimize the direct participation in Superior of certain key officers of Superior who are currently employees of the Manager. The Special Committee has retained independent financial, legal, tax and human resources advisors to assist in these deliberations. Discussions to date are at a preliminary stage. Internalization of the management agreement prior to its initial term of October 8, 2006 would only occur by mutual agreement of Superior, the Fund and the Manager, and would be subject to Unitholder approval. There is no assurance if and when an internalization transaction will occur.

Quarterly financial and operating information for 2002 and 2001 are provided below. Approximately two-thirds of Superior Propane's operating cash flow is generated in the first and fourth quarter each year, as approximately 50% of the sales volumes are generated from space heating end-use applications. Net working capital funding requirements follow a similar seasonal trend, peaking during the first quarter of each year and declining to seasonal lows during the third quarter. Operating cash flow of ERCO Worldwide does not have significant seasonal fluctuations.

Quarterly Financial and Operating Information

(millions of dollars except per trust unit amounts)

	2002 Quarter				2001 Quarter			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Propane sales volumes (millions of litres)	519	357	317	496	578	354	334	467
Chemical sales volumes (metric tonnes)				17,118				
Gross profit	92.4	61.4	54.1	87.8	101.4	60.0	57.1	82.2
Earnings (loss) before distributions to unitholders	32.5	10.9	6.0	19.3	18.4	1.6	(0.5)	17.9
Per basic and diluted trust unit	$ 0.66	$ 0.20	$ 0.09	$ 0.34	$ 0.38	$ (0.01)	$ (0.05)	$ 0.35
Distributable cash flow	37.5	16.9	11.5	24.6	33.3	13.7	7.1	24.2
Per basic trust unit	$ 0.82	$ 0.36	$ 0.24	$ 0.51	$ 0.73	$ 0.30	$ 0.15	$ 0.53
Per diluted trust unit	$ 0.76	$ 0.36	$ 0.24	$ 0.51	$ 0.68	$ 0.30	$ 0.15	$ 0.52
Net working capital [1]	42.6	27.0	34.4	54.0	129.9	22.7	31.7	43.2

[1] *Net working capital is comprised of accounts receivable and inventories, less accounts payable and accrued liabilities.*

Liquidity and Capital Resources

The Fund's distributions to Unitholders are sourced entirely from its investments in Superior. The Fund's investments in turn are financed by trust unit equity and by the Debentures. The quoted market value of the Fund's trust unit capital and Debentures was $941.3 million and $343.1 million respectively, based on closing prices on December 31, 2002 on The Toronto Stock Exchange.

Superior's capital assets are financed substantially through equity and Shareholder Notes held by the Fund. Working capital is financed by proceeds raised from the trade accounts receivable sales program and revolving term bank credit facilities. Maintenance capital requirements are funded from operating cash flow and are typically weighted towards the last half of the year, as Superior Propane's truck fleet, tanks and cylinders are renewed in preparation for the winter heating season. Distributions to Unitholders are funded by and to the extent of operating cash flow after provision for maintenance capital expenditures and distributions to Debentureholders and other provisions as deemed appropriate. Capital required to finance an expansion of Superior's business is financed by either additional borrowings by Superior or it may require the Fund to use its commercial best efforts to raise the required financing. Through these funding policies, Superior maintains a strong financial position to facilitate the efficient execution of its business plans.

On December 19, 2002, Superior acquired the Pulp Chemicals Business for $584.5 million on a debt-free basis. The Fund financed a portion of the acquisition through the successful issue on December 17, 2002 of $250 million Series 2 Debentures raising $239.5 million in net proceeds after issuance costs. The Series 2 Debentures are convertible at the option of the holder, into fully paid trust units of the Fund at a conversion price of $20.00 per trust unit. The remainder of the acquisition cost was financed by Superior through a $340 million, one-year unsecured, non-revolving bank credit facility and by borrowings on its existing revolving term bank credit facilities. Superior expects to refinance the acquisition bank credit facility in 2003 with more permanent financing, including term debt and equity.

The acquisition credit facility contains terms that limit the incurrence of additional indebtedness and payment of distributions to the Fund if senior indebtedness of Superior (including amounts raised from the accounts receivable sales program) exceeds three times earnings before interest, taxes, depreciation and amortization for the last 12 month period as adjusted for the proforma net income of acquisitions. At December 31, 2002, this ratio was 2.6 to 1.0. Approximately US$127.1 million (Cdn$200.7 million) has been borrowed on this facility to finance ERCO Worldwide's U.S. dollar-denominated assets.

In January 2001, the Fund successfully accessed capital markets through the issue of $100 million Series 1 Debentures. The Series 1 Debentures are convertible, at the option of the holders, into fully paid trust units of the Fund at a price of $16.00 per trust unit. Net proceeds of $96.7 million from the issue were used by Superior to repay term loans of $95.0 million that had previously been borrowed to fund the ICG acquisition. The 8% fixed interest rate obligation was swapped into a floating rate obligation in order to maintain the floating interest rate profile of the term loans that were repaid. The floating interest rate obligation was subsequently fixed for the August 2001 to January 2003 period, in order to capture the benefits of the current low interest rate environment, resulting in an average effective fixed interest rate of 5.9% over that period.

Both series of Debentures have been classified as equity on the consolidated balance sheet because the Fund may elect to satisfy interest and principal obligations by the issuance of trust units. Because of the equity treatment, the distributions on the Debentures are

charged directly to unitholders' equity, but are deducted from the calculation of distributable cash flow. (See Note 13 to the Consolidated Financial Statements.) During 2002, $30.3 million of Series 1 Debentures were converted into 1.9 million trust units, leaving $69.7 million in principal outstanding at December 31, 2002. Trust units issued as a result of the Series 1 Debenture conversions, together with trust units issued pursuant to the Fund's employee trust unit incentive plan, increased the weighted average number of trust units outstanding in 2002 by 2% over 2001.

Superior has term credit facilities aggregating $165.0 million with five banks. The credit facilities bear interest based on floating rates and contain terms similar to the acquisition credit facility described above. As at December 31, 2002, $103.4 million (2001: $101.0 million) had been drawn on these facilities. The current portion of these facilities was reduced by $65.0 million in 2002, due to the extension of Superior's revolving term credit facilities.

Superior has entered into an agreement to sell, with limited recourse, certain account receivables on a 30 day revolving basis to an entity sponsored by a Canadian Chartered Bank. The receivables are sold at a discount to face value based on prevailing money market rates. As at December 31, 2002, net proceeds of $68.6 million (2001: $67.6 million) had been raised from this program and were used to repay revolving term bank credits. (See Note 5 to the Consolidated Financial Statements.) The accounts receivable sales agreement requires Superior to maintain an investment grade credit rating (BBB minus or better) and meet certain historically based collection performance standards. Superior's senior debt obligations are currently rated BBB minus by Standard & Poors and BBB (low) by the Dominion Bond Rating Service.

Taken together, borrowings under Superior's revolving term credit facilities and proceeds from its receivable sales program amounted to $172.0 million at December 31, 2002, an increase of $3.4 million over the prior year. These two funding sources are used to fund Superior's net working capital requirements. Similarly, after excluding $29.5 million of net working capital acquired with the Pulp Chemicals Business, net working capital levels at December 31, 2002 were comparable to the prior year.

Business Risks

Propane Retailing Business

Propane Demand, Supply and Pricing: Propane represents less than 2% of the overall Canadian energy market and is used in a wide range of applications, including residential, commercial, industrial, agricultural and automotive uses. Demand for traditional propane end-use applications is increasing marginally, while demand for automotive uses is presently declining at a rate of approximately 15 to 20% per year. Based on the most recently available industry data, it is estimated that on an annual basis, approximately 11.0 billion litres of propane are produced in Canada of which about 4.8 billion litres are consumed domestically. The remainder is exported, mainly to the United States. Superior Propane's supply is currently purchased from 17 propane producers in Canada. Superior Propane leases underground propane storage capacity in Marysville, Michigan and at Fort Saskatchewan, Alberta. Superior Propane accumulates a propane storage position during the summer months to provide it with further supply security and distribution capacity in periods of supply disruption and high demand in the winter season. Propane is mainly purchased under annual contracts as well as under short-term spot contracts, with pricing arrangements based on industry posted prices at the time of delivery. The retail propane business is a "margin-based" business where the level of profitability is largely dependent on the difference between retail sales prices and wholesale product cost. Changes in propane supply costs are normally passed through to customers, but timing lags may result in both positive and negative fluctuations of gross margins.

Competition: Propane retailing is a local, relationship-based business, in which propane competes for market share based on price and level of service. There are close to 200 propane retailers in Canada. In addition, propane is subject to vigorous competition from other sources of energy, including natural gas, fuel oil, electricity, wood, gasoline, diesel and other fuels. Propane commodity prices are affected by crude oil and natural gas commodity prices. The automotive fuel market is currently declining at an estimated annual rate of 15 to 20% due to the development of more fuel-efficient and complicated engines, the increased cost of converting engines to propane consumption, and the decreased savings per kilometre driven. Reversal of this market trend will require increased support of governments and the original equipment vehicle manufacturers. The introduction of natural gas in Nova Scotia and New Brunswick commenced in late 2000 and has begun to displace propane in these areas as natural gas infrastructure becomes accessible.

Seasonality and Weather Conditions: Historically, overall propane demand from non-automotive end-use applications has been stable. However, weather conditions and general economic conditions affect propane market volumes. Weather influences the demand for propane primarily for heating uses and also for agricultural purposes, such as crop drying. Approximately two-thirds of annual cash flow is typically generated in the October-March winter heating season. Superior Propane accumulates propane inventory during the summer months for delivery to customers during the winter heating season. The cost of inventory may be higher or lower than market prices for propane at the time of sale and can impact profitability.

Fixed Price Offerings: Superior Propane offers its customers various fixed price propane and natural gas programs. In order to mitigate the price risk from offering these services to its customers, Superior Propane uses its physical inventory position, supplemented by forward commodity transactions with third parties that have terms and conditions that are substantially the same as its customers' contracts. Gains and losses from the customer contract and the mitigating transaction are recorded simultaneously into income at the time of settlement. See Note 15 to the Consolidated Financial Statements for a description of the propane and natural gas purchase and sale commitments.

Environmental Risk: The storage and transfer of propane has limited impact on soil or water given that a release of propane will disperse into the atmosphere. Slight quantities of propane may be released during transfer operations. Superior Propane has established a program directed at environmental, health and safety protection.This program consists of an environmental policy, codes of practice, periodic self-audits, employee training, quarterly and annual reporting and emergency prevention and response.

Pulp Chemicals Business

Supply Arrangements: ERCO Worldwide uses three primary raw materials to produce its chemical products: electricity, salt and water. Electricity comprises 65% to 75% of variable production costs. The business has long-term contracts or contracts that renew automatically with power producers in each of the jurisdictions in which its plants are located. The one exception is a plant in Grande Prairie, Alberta which purchases the majority of its power requirements at market rates or hedges required volumes at fixed rates for various periods. These contracts generally provide ERCO Worldwide with some portion of firm power and a portion that may be interrupted by the producer based on the terms of the various agreements. The business can temporarily reduce its power consumption in a very short period of time at minimal cost, which allows it, in some jurisdictions, to reduce its overall power costs by selling ancillary services back to the power producer or to the power grid.

ERCO Worldwide purchases salt from third party suppliers to fulfil the requirements at each of its plants with the exception of the Saskatoon facility, which is self-supplied through an approximate 100-year supply of salt that is solution mined on site by the business. The salt contracts are typically fixed price contracts with terms of one year or greater, often with automatic renewals. Salt costs typically comprise about 10% of variable production costs.

Competition: ERCO Worldwide, one of four global sodium chlorate companies, competes with Eka Chemicals, Finnish Chemicals and Nexen Chemicals on a worldwide basis. The business also competes with a number of smaller regional producers. Of the global producers, Finnish Chemicals and Nexen Chemicals have a narrower product range than Eka Chemicals and ERCO Worldwide and do not provide chlorine dioxide generators or related technology. The business also competes with various other chemical producers, such as Dow Chemicals, Pioneer, Arch Chemicals, Inc., PPG Industries and Vulcan, in the sale of its other chemical products.

Environmental Risk: ERCO Worldwide strives to achieve an environmental and safety record that compares favourably with other businesses in the chemical industry. The business has steadily reduced the number of safety and environmental incidents at all of its facilities, and has not had a material environmental or safety incident for over 10 years. ERCO Worldwide is also a founding member of Responsible Care®, an initiative of the Canadian Chemical Producers Association, an association that promotes the safe and environmentally sound management of chemicals.

Corporate

Interest Rates: Superior maintains primarily a floating interest rate exposure through a combination of floating interest rate borrowings and a hedging program. Approximately 50% of Superior Propane's demand levels are affected by general economic trends. Generally speaking, when the economy is strong, interest rates increase as does sales demand from Superior's customers, thereby increasing Superior's ability to pay higher interest costs and vice versa. In this way, a common relationship between economic activity levels, interest rates and Superior's ability to pay higher or lower rates are generally aligned, providing Superior with a natural business hedge against interest rates.

Foreign Exchange Risk: Approximately one-third of the revenues of the pulp chemicals business are denominated in U.S. dollars that are sourced with Canadian dollar costs. Accordingly, fluctuations in the Canadian/United States dollar exchange rate can impact profitability.

Employee and Labour Relations: As of December 31, 2002, Superior has 1,973 regular and 231 part-time employees. Approximately 610 of its employees are unionized through provincial or regional certifications in each province and territory except Alberta, Atlantic Canada and the Northwest Territories. There are eight union agreements, with expiry dates ranging from December 30, 2000 to November 30, 2008. Collective bargaining agreements are renegotiated in the normal course of business and are not expected to materially affect Superior's businesses.

New Accounting Policies for 2003: Management has reviewed the Canadian Institute of Chartered Accountants approved and proposed accounting standards and guidelines on hedging relationships and impairment of long-lived assets which will require the Fund to adopt new accounting policies in 2004 and 2005, respectively. Adoption of these policies are not expected to materially impact the financial results of the business.

Outlook

For 2003, we anticipate the full year contribution from ERCO Worldwide to increase Unitholder distributions over 2002 levels. Operating distributable cash flow from Superior Propane is expected to be at 2002 levels, as the impact of the continued decline in the auto propane market is expected to be offset by improvements in operating efficiencies. Superior Energy Management is anticipated to continue to grow profitably, generating positive distributable cash flow in 2003.

In 2003, Superior will focus on maintaining its strong financial position by refinancing the $340 million pulp chemicals acquisition credit facility with more permanent sources of capital including term debt and additional equity. Over the longer term, the Fund plans to continue its disciplined approach to acquire other businesses that have risk profiles appropriate for our income fund structure. Acquisitions must be accretive to Unitholder distributions and be financed in a manner that maintains Superior's existing financial strength.

Sensitivity Analysis

The Fund's estimated cash flow sensitivity to the following changes are provided in the table below:

	Change	% Change	Impact on Distributable Cash Flow[1]	Per Trust Unit[1]
Propane Retailing Business				
Change in sales margin	$0.005/litre	3%	$ 4.2 million	$ 0.09
Change in sales volume	50 million litres	3%	$ 3.1 million	$ 0.06
Pulp Chemicals Business				
Change in chemical sales price	$10.00/tonne	2%	$ 2.7 million	$ 0.06
Change in chemical sales volume	10,000 metric tonnes	2%	$ 1.8 million	$ 0.04
Change in US$	$0.05	3%	$ 2.0 million	$ 0.04
Corporate change in interest rates	1%	25%	$ 2.6 million	$ 0.05

[1] *After giving effect to management incentive fees. (See Note 16 to consolidated financial statements.)*

Administrator's Report

Superior Capital Management Inc. as administrator (the "Administrator") of the Superior Propane Income Fund (the "Fund") is responsible for the preparation of the consolidated financial statements of the Fund.

The consolidated financial statements have been prepared by the Administrator in accordance with Canadian generally accepted accounting principles and include certain estimates that are based on the Administrator's best judgements.

The Administrator has developed and maintains a system of internal controls to provide reasonable assurance that all of the Trust's assets are safeguarded, all transactions are accurately recorded, and the financial statements realistically report the Fund's operating and financial results in a timely manner. Financial information elsewhere presented in this annual report has been prepared on a consistent basis with that in the consolidated financial statements.

The Board of Trustees meet on a quarterly basis and has approved the information contained in the financial statements.

Deloitte & Touche LLP, an independent firm of chartered accountants, was appointed by a vote of Unitholders at the Fund's last annual meeting to audit the Fund's consolidated financial statements in accordance with Canadian generally accepted auditing standards and have provided an independent professional opinion.

President and
Chief Operating Officer
Superior Capital Management Inc.

Executive Vice-President
and Chief Financial Officer
Superior Capital Management Inc.

Calgary, Alberta
February 14, 2003

Auditors' Report

**To the Unitholders of
Superior Propane Income Fund:**

We have audited the consolidated balance sheets of **Superior Propane Income Fund** as at December 31, 2002 and 2001 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of Superior Capital Management Inc., as Administrator of the Fund. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Administrator, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and 2001 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
February 14, 2003

Consolidated Balance Sheets

(millions of dollars)	As at December 31	
	2002	**2001**
Assets		
Current Assets		
Accounts receivable (Note 5)	112.3	55.2
Inventories (Note 6)	57.7	49.3
	170.0	104.5
Capital assets, intangible assets, and goodwill (Note 7)	1,222.7	550.4
	1,392.7	654.9
Liabilities and Unitholders' Equity		
Current portion of revolving term bank credits and term loans (Note 8)	340.0	65.0
Accounts payable and accrued liabilities	116.0	57.9
Distributions payable to unitholders and debentureholders	10.2	21.7
	466.2	144.6
Revolving term bank credits and term loans (Note 9)	103.4	36.0
Future employee benefits (Note 10)	24.4	8.4
Future income taxes (Note 11)	142.9	17.2
Unitholders' equity (Note 12)	655.8	448.7
	1,392.7	654.9

APPROVED BY THE TRUSTEES

Trustee

Trustee

Consolidated Statements of Earnings and Deficit

(millions of dollars, except per trust unit amounts)	Years Ended December 31	
	2002	**2001**
Revenues	640.9	787.5
Cost of products sold	345.1	486.8
Gross profit	295.8	300.7
Expenses		
Operating and administrative	180.0	196.6
Management incentive fee (Note 16)	11.1	5.6
Depreciation and amortization	28.7	56.3
Interest (Note 9)	2.8	8.5
Income taxes of Superior (Note 11)	4.4	(3.7)
	227.0	263.3
Net Earnings before Distributions to Unitholders	68.8	37.4
Distributions to unitholders	(93.3)	(76.6)
	(24.5)	(39.2)
Deficit, Beginning of Year	(195.9)	(149.5)
Distributions to debentureholders (Notes 12 and 13)	(7.7)	(6.9)
Accretion of debentures charged to deficit (Notes 12 and 13)	(0.4)	(0.3)
Adjustment for a retroactive change in accounting policy for trust unit incentive plan compensation (Note 14)	(1.1)	–
Deficit, End of Year	(229.6)	(195.9)
Net earnings per trust unit, before distributions to unitholders, net of distributions to debentureholders, basic and diluted (Note 12 (i))	$ 1.29	$ 0.67

Consolidated Statements of Cash Flows

(millions of dollars)	Years Ended December 31 2002	2001
Operating Activities		
Earnings before distributions to unitholders	68.8	37.4
Items not affecting cash:		
Depreciation and amortization	28.7	56.3
Trust unit incentive plan compensation expense (Note 14)	0.2	–
Future income tax expense (recoveries)	3.7	(4.4)
Cash generated from operations before changes in working capital	101.4	89.3
Decrease (increase) in non-cash operating working capital items	(0.3)	2.1
Net cash available	101.1	91.4
Investing Activities		
Maintenance capital expenditures, net	(3.1)	(4.1)
Other capital proceeds (expenditures), net	4.6	(2.1)
Purchase of pulp chemicals business (Note 4)	(584.5)	–
	(583.0)	(6.2)
Financing Activities		
Net proceeds from issue of debentures (Note 13)	239.5	96.7
Net proceeds from sale of accounts receivable (Note 5)	1.0	67.6
Revolving term bank credits and term loans (Notes 8 and 9)	342.4	(166.0)
Distributions to debentureholders	(7.7)	(6.9)
Distributions to unitholders	(93.3)	(76.6)
	481.9	(85.2)
Change in Cash	–	–
Cash at Beginning and End of Period	–	–

Notes to Consolidated Financial Statements

1. Distributable Cash Flows

Cash generated from operations before changes in working capital	101.4	89.3
Less maintenance capital expenditures, net	(3.1)	(4.1)
Less distributions to debentureholders	(7.7)	(6.9)
Distributable cash flow	90.6	78.3
Distributable cash flow per unit, basic (Note 12(i))	$ 1.93	$ 1.71
Distributable cash flow per unit, diluted (Note 12(i))	$ 1.88	$ 1.65

Distributable cash flow paid to holders of trust units ("Unitholders") of the Superior Propane Income Fund (the "Fund") is equal to the cash flow of Superior Propane Inc. ("Superior"), after provision for maintenance capital expenditures, distributions to holders of debentures ("Debentureholders") of the Fund and other reserves as may be considered necessary, less expenses of the Fund. Commencing in July 2002, the Fund changed its frequency of distributions to Unitholders from a quarterly to a monthly basis. Cash is received monthly by the Fund from Superior in the form of interest income earned on the $721.2 million unsecured subordinated notes, due October 1, 2026 (the "Shareholder Notes") and dividends or returns of capital received on the Class A and B Common Share investment ("Common Shares") in Superior. Any remaining distributable cash flow in respect of the fiscal year is distributed in April of the subsequent year as part of the March distribution. Distributions to Debentureholders are accounted for on an accrual basis.

2. Organization

The Fund is a limited purpose, unincorporated trust governed by the laws of the Province of Alberta. The Fund holds all of the outstanding securities of Superior. The Fund's investments in Superior are comprised of the Common Shares and the Shareholder Notes, bearing interest at a weighted average rate of 13.25%. The Fund's investments in Superior are financed by trust unit equity and convertible unsecured subordinated debentures (the "Debentures") (See Note 12 – Unitholders' Equity and Note 13 – Convertible Debentures.) The Fund distributes to Unitholders, dividends and/or returns of capital received from its Common Share investment and interest received from its Shareholder Note investment, after payment of Fund expenses and distributions to Debentureholders.

On October 8, 1996, the Fund entered into certain agreements including a unanimous shareholders' agreement, a management agreement and an administration agreement (the "Unanimous Shareholders' Agreement", the "Management Agreement" and the "Administration Agreement"). The Unanimous Shareholders' Agreement provides for various matters relating to Superior including the manager's entitlement to nominate a majority of the members of the Superior Board of Directors so long as the manager holds not less than 10% of the outstanding trust units of the Fund. In addition, the Fund may not sell, assign, pledge or otherwise encumber any of the Shareholder Notes or Common Shares without the prior approval of Superior's Board of Directors. (See Note 16 – Related Party Transactions and Agreements.)

3. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared according to Canadian generally accepted accounting principles applied on a consistent basis and include the accounts of the Fund, its wholly owned subsidiary, Superior and Superior's subsidiaries. All significant transactions and balances (including the Shareholder Notes) between the Fund, Superior and Superior's subsidiaries have been eliminated on consolidation.

Change in Accounting Standards

Goodwill and Intangible Assets

Effective January 1, 2002, the Fund adopted the new standards for accounting for goodwill and other intangible assets as recommended by the Canadian Institute of Chartered Accountants ("CICA") on a prospective basis. This change increased net earnings before distributions to unitholders by $23.5 million in 2002 and had no impact on distributable cash flow. On a per trust unit basis, in 2002, the change increased the basic and diluted earnings per trust unit by $0.50. In 2001 the change would have increased net earnings before distributions to Unitholders by $23.5 million and would have increased the basic and diluted earnings per trust unit by $0.51.

Stock Based Compensation

The Fund has a Trust Unit Incentive Plan ("TUIP") as described in Note 14. The TUIP is a Stock Appreciation Right as defined by the CICA. Effective January 2002, the Fund adopted the new standards for accounting for stock based compensation as recommended by the CICA. The new standard was retroactively applied without restatement of the 2001 financial statements. (See Note 14.) Compensation expense recognized represents the difference between the market price of the trust units as compared to the grant price for the outstanding options multiplied by the number of options, reflecting the vesting features of the plan.

(b) Business Segments

Superior operates two distinct business segments; the delivery of propane and propane related services and accessories under the Superior Propane trade name (the "Propane Retailing Business" or "Superior Propane"); and the manufacture and sale of chemicals and related products and services used primarily in the production of bleached pulp operating under the ERCO Worldwide trade name (the "Pulp Chemicals Business" or "ERCO Worldwide"). (See Notes 4 and 17.)

(c) Inventories

Propane Retailing Business

Inventories of propane are valued at the lower of cost and market determined on the basis of estimated net realizable value. Appliances, materials, supplies and other inventories are stated at the lower of cost and market determined on the basis of estimated replacement cost or net realizable value, as appropriate. Superior has an inventory of appliances rented to customers under rental contracts. The book value of this inventory is carried in the inventory accounts at cost less accumulated amortization. Amortization is provided on a straight-line basis, generally over a period of five years.

Pulp Chemicals Business

Inventories of the Pulp Chemicals Business are determined on a first-in, first-out basis, except for stores and supply inventories that are valued at average cost. Transactions are entered into from time to time with other companies to exchange chemical inventories in order to minimize working capital requirements and to facilitate distribution logistics. Balances related to quantities due to or payable by Superior are included in inventory.

(d) Accounts Receivable Sales Program

Superior has a revolving trade accounts receivable sales program under which all transactions are accounted for as sales in accordance with the CICA accounting guideline "Transfer of Receivables". (See Note 5.)

(e) Financial Instruments

The net carrying value of accounts receivable, including the allowance for doubtful accounts, approximates fair value. The collection risk associated with accounts receivable that are sold pursuant to Superior's accounts receivable sales program (See Note 5), is provided for as part of Superior's overall allowance for doubtful accounts. Superior has a large number of diverse customers, which minimizes overall accounts receivable credit risk.

The carrying value of accounts payable, accrued liabilities and accrued interest approximates the fair value of these financial instruments due to the short-term maturity of these instruments. The carrying values of revolving term bank credits and term loans approximate their fair values due to the floating interest rate nature and short repayment term of these debt securities.

Superior manages its interest rate risk through a combination of floating interest rates and a hedging program.

(f) Capital Assets

Property, plant, and equipment are recorded at cost. Major renewals and improvements, which extend the useful lives of equipment, are capitalized, while repair and maintenance expenses are charged to operations as incurred. Disposals are removed at carrying costs less accumulated depreciation with any resulting gain or loss reflected in operations.

Propane Retailing Business
Capital assets are depreciated over their respective estimated useful lives using the straight line method except for loaned propane dispensers which use the declining balance method at a rate of 10%. The estimated useful lives of major classes of property, plant and equipment are:

Propane buildings	20 years
Tanks and cylinders	20 years
Truck tank bodies and chassis	7 to 10 years

Pulp Chemicals Business
Capital assets are depreciated on a straight line basis over estimated useful lives ranging from three to twenty-five years, with the predominant life of plant and equipment being fifteen years.

Intangible Assets – Pulp Chemicals Business
The costs of patents are amortized on a straight-line basis over their estimated useful lives, which approximates ten years. The estimated fair value of acquired royalty assets are amortized over the remaining term of the royalty agreements up to ten years.

Goodwill
The excess of the Fund's cost of investment in Superior's Common Shares and Shareholder Notes over the corresponding interest in Superior's current assets and property, plant and equipment less current liabilities, long term debt and future income taxes on the dates of acquisition has been attributed to goodwill. Superior's cost of acquisitions in excess of the fair value of the net assets of acquired operations is also recorded as goodwill. Goodwill is not amortized but is tested for impairment on an annual basis in accordance with the new standards for accounting for goodwill and other intangible assets as recommended by the CICA. The net carrying value of goodwill would be written down if the value were permanently impaired.

(g) Revenue Recognition

Propane Retailing Business
Revenues from sales are generally recognized at the time of delivery, or when related services are performed. Amounts billed to customers for shipping and handling are classified as revenues, with the related shipping and handling costs included in cost of goods sold.

Pulp Chemicals Business
Revenues associated with the construction of chlorine dioxide generators are recognized using the percentage of completion method based on cost incurred compared to total estimated cost.

(h) Future Employee Benefits
Superior has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees, and accrues its obligations under the plans and the related costs, net of plan assets. (See Note 10.)

(i) Income Taxes
The Fund is a unit trust for income tax purposes. As such, the Fund is only taxable on any taxable income not allocated to the Unitholders. During 2002 and 2001, the Fund has allocated all of its taxable income to the Unitholders, and accordingly, no provision for income taxes is required at the Fund level. Superior is subject to corporate income taxes and follows the liability method of accounting for income taxes. (See Note 11.)

(j) Foreign Currency Translation
The accounts of the operations of the Pulp Chemicals Business in the United States are considered to be self-sustaining foreign operations and are translated using the current rate method, under which all assets and liabilities are translated at

the exchange rate prevailing at the balance sheet date, and revenues and expenses at average rates of exchange during the period. Resulting gains or losses are deferred and included in the Currency Translation Account ("CTA") component of unitholders' equity. Gains and losses on foreign currency loans, deposits and transactions that are designated as hedges of the investment in self-sustaining foreign operations are similarly deferred and included in the CTA. Deferred CTA translation and hedging gains and losses are included in income when there is a reduction in the net investment in self-sustaining foreign operations.

4. Acquisition of Pulp Chemicals Business

On December 19, 2002, Superior acquired the Pulp Chemicals Business of Sterling Chemicals, Inc. for cash consideration of approximately $584.5 million on a debt-free basis. Using the purchase method for acquisitions, Superior consolidated the assets and liabilities from the acquisition and included earnings as of the purchase date. Assets acquired and liabilities assumed were recorded at estimated fair values on the date of acquisition. Goodwill was recorded as the purchase price less the acquired assets and assumed liabilities. The allocation of the purchase price may be adjusted if additional information regarding the values of asset and liabilities becomes available within one year of the acquisition date.

The consideration paid by Superior has been allocated as follows:

Cash consideration paid	$	577.5
Acquisition costs		7.0
	$	584.5

Capital assets	$	548.2
Intangible assets		65.3
Goodwill		83.0
Working capital, net		29.5
Future income taxes		(122.1)
Future employee benefits		(16.4)
Other liabilities		(3.0)
	$	584.5

5. Accounts Receivable

On June 29, 2001, Superior entered into an agreement to sell, with limited recourse, certain trade accounts receivable generated by the Propane Retailing Business on a revolving basis to an entity sponsored by a Canadian chartered bank, and has accounted for the sale in accordance with the guidelines of the CICA relating to transfers of receivables. The accounts receivable are sold at a discount to face value based on prevailing money market rates. Superior has retained the servicing responsibility for the accounts receivable sold and has therefore recognized a servicing liability. The level of accounts receivable sold under the program fluctuates seasonally with the level of accounts receivable. At December 31, 2002 net proceeds of $68.6 million (2001 – $67.6 million) had been received, resulting in a year to date loss on sale of $0.1 million (2001 – $0.3 million) which has been included in depreciation and amortization expense on the Statement of Earnings and Deficit. The fair value of the retained interest arising from the sale at December 31, 2002 was $11.9 million (2001 – $9.9 million) and was estimated by discounting expected cash flows at prevailing money market rates.

Cash flows related to this sales program were as follows:

	2002	2001
Net proceeds, beginning	$ 67.6	$ –
Net proceeds from the initial accounts receivable sale	–	69.7
Proceeds from collections re-invested in revolving period sales	677.9	295.2
Remittances of amounts collected on sales	(676.9)	(297.3)
Net proceeds from accounts receivable sales	$ 68.6	$ 67.6

6. Inventories

	2002	2001
Propane	$ 27.3	$ 31.9
Materials, supplies, appliances and other related to propane delivery	14.8	17.4
Pulp Chemical finished goods and raw material	6.5	–
Pulp Chemical stores, supplies and other	9.1	–
	$ 57.7	$ 49.3

7. Capital Assets, Intangible Assets and Goodwill

	2002			2001		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	$ 35.9	$ –	$ 35.9	$ 25.4	$ –	$ 25.4
Buildings	81.1	11.1	70.0	27.6	13.2	14.4
Pulp Chemicals plant & equipment	480.8	1.3	479.5	–	–	–
Propane marketing equipment	394.0	261.3	132.7	402.6	246.4	156.2
Property, plant and equipment	$ 991.8	$ 273.7	$ 718.1	$ 455.6	$ 259.6	$ 196.0
Pulp Chemicals intangible assets	66.7	0.2	66.5	–	–	–
Goodwill	530.2	92.1	438.1	446.5	92.1	354.4
Total capital assets, intangible assets and goodwill	$ 1,588.7	$ 366.0	$ 1,222.7	$ 902.1	$ 351.7	$ 550.4

8. Current Portion of Revolving Term Bank Credits and Term Loans

On December 19, 2002, Superior borrowed from a syndicate of Canadian banks, on an unsecured, non-revolving basis, $340.0 million for the purpose of partially funding the acquisition of the Pulp Chemicals Business. (See Note 4.) The full amount of this loan remained outstanding at December 31, 2002 of which $127.1 million was borrowed in US dollars (Cdn. $200.7 million). The loan is repayable on December 18, 2003 and bears interest based on floating rates. As at December 31, 2001, the current portion of revolving term bank credits was $65.0 million. During 2002, Superior extended the term of its revolving credit facilities. As a result, at December 31, 2002, there was no current portion of revolving term bank credit facilities outstanding. (See Note 9.)

9. Revolving Term Bank Credits and Term Loans

Revolving term bank credits of $103.4 million (2001: $101.0 million including current portion) are unsecured and bear interest based on floating rates. Repayment requirements are as follows:

Current portion	$ –
Due in 2004	32.6
Due in 2005	70.8
Total	$ 103.4

Interest paid on bank advances and revolving term bank credits during the year amounted to $2.8 million (2001: $8.5 million) of which $2.0 million (2001: $7.9 million) relates to long term debt, net of payments received of $2.2 million (2001: $1.3 million) under Debenture interest rate swap agreements. (See Note 13.)

10. Future Employee Benefits

Superior has defined benefit ("DB") and defined contribution ("DC") pension plans covering most employees. The benefits provided under the DB pension plan are based on the employees' years of service and on the highest average earnings for a specified number of consecutive years.

Information about Superior's DB and other benefit plans, in aggregate, is as follows:

	Propane DB Plans		Pulp Chemicals DB Plans[2]	Total Other Benefit Plans	
	2002[1]	**2001**[1]	**2002**	**2002**	**2001**
Accrued benefit obligation, beginning of year	$ 53.2	$ 54.4		$ 8.4	$ 8.8
Obligation assumed on Pulp Chemicals acquisition	–	–	$ 38.2	5.4	–
Current service cost	0.4	0.7	–	–	0.2
Interest cost	3.3	3.5	0.1	0.5	–
Benefits paid	(5.4)	(5.7)	–	(0.9)	(0.6)
Actuarial loss	(0.2)	0.3	0.6	4.5	–
Accrued benefit obligation, end of year	51.3	53.2	38.9	17.9	8.4
Fair value of plan assets, beginning of year	80.7	93.0	–	–	–
Plan assets acquired on Pulp Chemicals acquisition	–	–	24.7	–	–
Actual return on plan assets	(5.1)	(2.8)	–	–	–
Transfers to DC plan	(2.4)	(3.8)	–	–	–
Employer contributions	–	–	0.1	0.9	–
Benefits paid	(5.4)	(5.7)	–	(0.9)	–
Fair value of plan assets, end of year	67.8	80.7	24.8	–	–
Funded status – plan surplus (deficit)	16.5	27.5	(14.1)	(17.9)	(8.4)
Unamortized net actuarial loss	17.9	7.5	–	4.5	–
Unamortized transitional asset	(1.4)	(1.7)	–	–	–
Accrued net benefit asset [1]	$ 33.0	$ 33.3			
Accrued net benefit balance sheet obligation			$ (14.1)	$ (13.4)	$ (8.4)
Less: current portion of accrued net benefit obligation			$ (3.1)		
Long term accrued net benefit obligation (2002 – $24.4 million)			$ (11.0)	$ (13.4)	$ (8.4)

[1] None of which is recorded on the balance sheet or the income statement.
[2] Acquired December 19, 2002.

The accrued net benefit obligation related to the total other benefit plans of the Propane Retailing and Pulp Chemical businesses in 2002 was $13.4 million (2001: $8.4 million) and an expense of $0.1 million (2001: $0.2 million) which has been recorded in the consolidated financial statements.

Superior's DC pension plans are fully funded by their nature. Accordingly, DC pension plan assets equal the related obligation. The total cost of Superior Propane's DC plans in 2002 was $2.4 million (2001: $2.4 million) and was fully funded and offset by the return earned on the unrecognized DB plan's net benefit asset. The Propane Retailing

Business expects to continue to fund its required annual obligation under the DC pension plan from returns earned on the DB plan's net benefit asset.

The significant actuarial assumptions adopted in measuring the Pulp Chemical's and Superior Propane's accrued benefit obligations are as follows:

	DB Plans		Other Benefit Plans	
	2002	**2001**	**2002**	**2001**
Discount rate	6.5%	6.5%	6.5%	7.0%
Expected long-term rate of return on plan assets	7.0%	7.0%	–	–
Rate of compensation increase	4.5%	4.5%	4.5%	4.5%

The weighted average annual assumed health care trend used in the calculation of accrued other benefit plan obligations is 13% for 2002. This rate is assumed to decrease gradually to 3.5% in 2012 and thereafter.

11. Income Taxes

The provision for income taxes in the consolidated statements of earnings and deficit reflects the consolidation of Superior's income tax expense (recovery).

The components of the future income tax liability at December 31, 2002 and 2001 are as follows:

	2002	**2001**
Excess of carrying value of tangible assets over tax values	$ (165.7)	$ (34.2)
Income tax asset related to losses carried forward	8.9	13.2
Accounting reserves, deductible when paid	13.9	3.8
	$ (142.9)	$ (17.2)

Total income taxes are different than the amount computed by applying the combined expected Canadian and Provincial tax rates of 39.2% (2001: 42.1%) to income before taxes. The reasons for these differences are as follows:

	2002	**2001**
Earnings before distributions to unitholders	$ 68.8	$ 37.4
Income tax expense (recovery) of Superior	4.4	(3.7)
Earnings of the Fund before taxes and distributions to unitholders	$ 73.2	$ 33.7
Canadian statutory rate of income taxes	39.2%	42.1%
Computed tax expense	$ 28.7	$ 14.2
Increase (decrease) in income taxes resulting from:		
Shareholder Note interest expense eliminated on consolidation	(25.1)	(25.4)
Reductions in federal and provincial income tax rates	–	(1.1)
Large corporations tax	0.7	0.8
Permanent difference – goodwill amortization	–	7.5
Other items, net	0.1	0.3
Reported expense (recovery) of income taxes	$ 4.4	$ (3.7)

Total taxes paid during 2002 were $0.7 million (2001: $0.8 million) comprised solely of federal large corporations tax.

12. Unitholders' Equity

Authorized

The Fund may issue an unlimited number of trust units. Each trust unit represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets in the event of termination or wind-up of the Fund. All trust units are of the same class with equal rights and privileges.

	Issued Number of Trust Units	Equity
Unitholders' equity, December 31, 2000	45.8	$ 397.8
Issue of Debentures (Note 13)		97.0
Accretion of Debentures of $0.3 million, net of corresponding charge to deficit		–
Exercise of trust unit options	0.1	–
Earnings before distributions to Unitholders		37.4
Distributions to Debentureholders		(6.9)
Distributions to Unitholders		(76.6)
Unitholders' equity, December 31, 2001	45.9	$ 448.7
Issue of Debentures (Note 13)		240.0
Accretion of Debentures of $0.4 million, net of corresponding charge to deficit		–
Conversion of $30.3 million Series 1 Debentures, and exercise of trust unit options (Note 13)	1.9	–
Contributed surplus of $1.3 million from trust unit incentive plan compensation, net of charge to deficit of $1.1 million		0.2
Currency Translation Adjustment (Note 3)		(0.9)
Earnings before distributions to Unitholders		68.8
Distributions to Debentureholders		(7.7)
Distributions to Unitholders		(93.3)
Unitholders' equity, December 31, 2002	47.8	$ 655.8

(i) Distributable cash flow and net earnings per trust unit, before distributions to Unitholders, have been calculated using the weighted average number of trust units outstanding during the period (46.9 million in 2002; 45.8 million in 2001). The number of trust units used in the calculation of diluted distributable cash flow and net earnings per trust unit before distributions to Unitholders, have been calculated using 52.8 million trust units in 2002 (51.7 million in 2001) and reflect the assumed conversion of all outstanding Series 1 and Series 2 Debentures and trust unit options.

(ii) Future Financing: The Fund, at the direction of Superior, is obligated to use its commercial best efforts to raise funds to acquire additional Shareholder Notes and Common Shares of Superior to provide Superior with additional capital.

13. Convertible Debentures

The Fund has issued two series of Debentures denoted as Series 1 and Series 2 as follows:

	Series 1	Series 2	Total
Maturity date	July 31, 2007	November 1, 2008	
Fixed distribution rate	8%	8%	
Conversion price per trust unit	$ 16.00	$ 20.00	
January 31, 2001 issue	$ 100.0	$ –	$ 100.0
Principal outstanding December 31, 2001	100.0	–	100.0
December 17, 2002 issue	–	250.0	250.0
Conversions during 2002	(30.3)	–	(30.3)
Principal outstanding December 31, 2002	$ 69.7	$ 250.0	$ 319.7
Carrying value as at December 31, 2002:			
Principal	46.1	144.0	190.1
Distribution payment obligations	22.0	95.0	117.0
Holder's option	0.6	1.0	1.6
	$ 68.7	$ 240.0	$ 308.7
Quoted market value at December 31, 2002	$ 84.3	$ 258.8	$ 343.1

On December 17, 2002, the Fund issued $250 million, 8% Debentures maturing on November 1, 2008 (the "Series 2 Debentures") for net proceeds after issue costs of $239.5 million. On January 31, 2001 the Fund issued $100 million, 8% Debentures maturing on July 31, 2007 (the "Series 1 Debentures") for net proceeds after issue costs of $96.7 million.

The Debentures may be converted into trust units at the option of the holder at any time prior to maturity and may be redeemed by the Fund in certain circumstances. The Fund may elect to pay interest and principal upon maturity or redemption by issuing trust units to a trustee in the case of interest payments, and to the Debentureholders in the case of payment of principal. The number of any trust units issued will be determined based on market prices for the trust units at the time of issuance.

The Debentures and related interest obligation have been classified within unitholders' equity on the consolidated balance sheet because the Fund may elect to satisfy the Debenture interest and principal obligations by the issuance of trust units. Debenture payments are charged directly to the deficit.

The fixed 8% distribution obligation of the Series 1 Debentures was swapped into a floating interest rate obligation in order to maintain the existing floating interest rate profile of the revolving term bank credits and term loans that were repaid. The fair value of the interest rate swaps related to the Series 1 Debentures at December 31, 2002 was an asset of $5.8 million (2001: $1.6 million).

14. Trust Unit Incentive Plan ("TUIP")

Under the terms of the Fund's TUIP, market growth options may be issued to the trustees of the Fund and to directors, senior officers and employees of Superior. Under the terms of the TUIP, the number of trust units issued is equal to the growth in value of the options at the time the options are exercised, represented by the market price less the exercise price times the number of options exercised, divided by the current market price of the trust units issued. Under the terms of the TUIP, options are granted for a four-year term and are exercisable as to one-third immediately and an additional one-third on the first and second anniversary of the date of grant.

The Fund retroactively applied the new standard for accounting for stock-based compensation as recommended by the CICA without restatement of the December 31, 2001 consolidated financial statements and recorded $1.1 million to contributed surplus and a corresponding charge to the deficit. During 2002, the adoption of this standard has resulted in a charge against income of $0.2 million and a corresponding adjustment to contributed surplus, and had no impact on distributable cash flow.

No amounts are owing from employees under the TUIP. The exercise price of the TUIP options equals the market price on the date of the grant.

A summary of the status of the Fund's TUIP as at December 31, 2002 and 2001 and changes during these years is summarized below:

	2002		2001	
	Options (000s)	Weighted Average Exercise Price	Options (000s)	Weighted Average Exercise Price
Options outstanding at beginning of year	600	$ 14.76	805	$ 13.74
Granted	287	18.04	319	15.88
Exercised	(326)	14.67	(427)	13.80
Forfeited	(67)	16.14	(97)	14.90
Options outstanding at end of year	494	$ 16.53	600	$ 14.76
Options exercisable at end of year	253	$ 15.71	324	$ 14.59

The following summarizes information about the trust unit options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	(000s) Outstanding at December 31, 2002	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	(000s) Exercisable at December 31, 2002	Weighted Average Exercisable Price
$10.45 – $13.50	47	1.3 years	$ 13.01	47	$ 13.01
$14.40 – $15.96	177	2.0 years	$ 15.44	114	$ 15.24
$16.30 – $19.64	270	3.3 years	$ 17.86	92	$ 17.67

15. Commitments

(i) Commitments for premises, rail cars and other equipment under lease obligations for the next five years and thereafter are as follows:

2003	$ 13.1
2004	10.9
2005	8.0
2006	5.3
2007 and thereafter	7.5

(ii) Commitments under long-term natural gas and propane purchase contracts for the next five years are as follows:

2003	$ 64.3
2004	19.0
2005	7.8
2006	1.7
2007 and thereafter	0.3

Superior is similarly committed to long-term natural gas and propane sales contracts to supply customers.

16. Related Party Transactions and Agreements

A group of senior executives of Superior (the "SCMI Executives"), together with funds managed by Enterprise Capital Management Inc., operating under the name of Superior Capital Management Inc. and related entities ("SCMI"), hold approximately 10% of the Fund's outstanding trust units as well as the rights under the Superior Management Agreement and the Fund's Administration Agreement. See Management Agreement and Administration Agreement below.

(i) Management Agreement

Pursuant to the Management Agreement between SCMI and Superior dated October 8, 1996 as amended (the "Management Agreement"), SCMI provides executive management and other services to Superior. The Management Agreement provides for the full recovery of all expenses, including general and administrative expenses, of SCMI attributable to the management of Superior. For the year ended December 31, 2002, Superior paid SCMI $1.0 million (2001: $0.7 million) related to salary and benefit expenses incurred by SCMI for the SCMI Senior Executives.

The Management Agreement entitles SCMI to earn incentive fees which are based upon the level of cash flow distributed to the Fund in respect of a calendar year. The incentive fees are payable annually on April 15th of the year following the applicable year. SCMI, as the manager, will be entitled to incentive fees in respect of a year when distributions by Superior in respect of that year are within the following target ranges:

	Cash Flow Distributed to the Fund Per Trust Unit	Incentive Fee Entitlement of the Manager
	Less than $ 1.27	Nil
First target	$ 1.28 to $ 1.45	15%[1]
Second target	$ 1.46 to $ 1.89	25%[1]
Third target	$ 1.90 and greater	50%[1]

[1] Percentage of incremental cash flow in excess of the cash flow amount calculated under the previous target range.

Distributions with respect to Superior's 2002 operations reached the equivalent of $1.93 per trust unit (2001: $1.71 per trust unit), resulting in management incentive fees of $11.1 million (2001: $5.6 million).

The Management Agreement has an initial term of ten years and is automatically renewed for successive three year terms unless Unitholders vote, by a majority of 66 2/3% of all outstanding trust units, to terminate the agreement, following a notice period of one year, at the end of the initial or any renewal term, as the case may be, SCMI may terminate the agreement at any time following a one year notice period. The Management Agreement may also be terminated by Superior upon the insolvency, liquidation or winding-up of SCMI (or its successors and assigns), upon a material breach by SCMI of its contractual obligations, which is not remedied within six months following notice of breach, or the termination of the Fund. In the event the Management Agreement is not renewed or is terminated for reasons other than SCMI's insolvency, liquidation or winding-up or a material breach of the Management Agreement by SCMI, Superior is obligated to pay SCMI (or its successors and assigns) an amount equal to the average of the actual management fees paid by Superior in the immediately preceding two fiscal years and the budgeted fees in the current or forthcoming year, multiplied by ten.

A Special Committee of the Board of Directors of Superior has been established, which includes the Trustees of the Fund and the independent directors of Superior, to consider the merits of internalizing the management services provided by the Manager to Superior pursuant to the Management Agreement in order to eliminate future management incentive fees, improve the governance structure of the Superior, further align the interest of management and the Fund and retain the direct participation in Superior of certain key officers of Superior who are currently employees of the Manager. The Special Committee has retained independent financial, legal, tax and human

resources advisors to assist in its deliberations. Discussions to date are at a preliminary stage. Internalization of the Management Agreement prior to completion of its initial term on October 6, 2006 is expected to occur only by the mutual agreement of Superior, the Fund and the Manager and subject to Unitholder approval. There is no assurance if and when an internalization transaction will occur.

(ii) Administration Agreement

Pursuant to an Administration Agreement between SCMI, Superior and the Fund dated October 8, 1996, as amended (the "Administration Agreement") SCMI acts as an administrator and advisor for the Fund in consideration of an initial annual fee of $0.3 million, adjusted annually for inflation. For the year ended December 31, 2002, the Fund paid SCMI $0.3 million (2001: $0.3 million) in respect of administration and advisory fees pursuant to the Administration Agreement. The term and termination provisions of the Administration Agreement are the same as for the Management Agreement.

(iii) Management Trust Unit Purchase Plan Loan Guarantee

Nine executive officers of Superior have obtained guarantees from Superior under the terms of the Management Trust Unit Purchase Plan (the "MTUPP"), whereby participants may acquire trust units of the Fund through open market purchases in pledge accounts established by individual participants with an investment dealer. Participants borrow directly from a chartered bank the entire cash amount required to make the trust unit purchases with Superior guaranteeing up to 66% of the loan amount. As at December 31, 2002, the aggregate quoted market value of trust units owned under the MTUPP was $9.2 million (2001 – $7.4 million). The aggregate amount of participant loans from a chartered bank was $7.3 million (2001 – $6.3 million), which were supported by guarantees of Superior aggregating $5.0 million (2001 – $4.4 million).

17. Business Segments

Superior operates two distinct business segments; the delivery of propane and propane related services and accessories, the Propane Retailing Business; and the manufacture and sale of chemicals and related products and services used primarily in the production of bleached pulp, the Pulp Chemicals Business. The year ended December 31, 2002 is the first year that Superior had more than one reportable business and geographic segment due to the acquisition of the Pulp Chemicals Business. (See Note 4.) Their accounting policies are described in Note 3.

Distributable cash flow is the main performance measure used by management to evaluate segment performance. (See Note l.)

In the accompanying table, all revenues and expenses were to unaffiliated parties. There were no inter-segment revenues or expenses.

	For the Year Ended December 31, 2002			
	Propane Retailing	Pulp Chemicals	Corporate	Total Consolidated
Revenues	$ 630.4	$ 10.5	$ –	$ 640.9
Cost of products sold	339.7	5.4	–	345.1
Gross profit	290.7	5.1	–	295.8
Expenses				
Operating & administrative	177.0	1.8	1.2	180.0
Management incentive fee	–	–	11.1	11.1
Depreciation & amortization	27.2	1.5	–	28.7
Interest	–	–	2.8	2.8
Income taxes of Superior	3.8	0.6	–	4.4
	208.0	3.9	15.1	227.0
Net Earnings before distributions to Unitholders	82.7	1.2	(15.1)	68.8
Add: Depreciation & amortization	27.2	1.5	–	28.7
Trust unit incentive plan expense	–	–	0.2	0.2
Future income tax expense	3.2	0.5	–	3.7
Less: Maintenance capital expenditures, net	(3.0)	(0.1)	–	(3.1)
Distributions to Debentureholders	–	–	(7.7)	(7.7)
Distributable cash flow	$ 110.1	$ 3.1	$ (22.6)	$ 90.6
Total assets as at December 31, 2002	$ 624.8	$ 767.9	$ –	$ 1,392.7

Geographic Information

	Canada	United States	Total Consolidated
Revenues	$ 635.4	$ 5.5	$ 640.9
Capital assets, intangible assets and goodwill as at December 31, 2002	$ 1,052.1	$ 170.6	$ 1,222.7
Total assets as at December 31, 2002	$ 1,238.2	$ 154.5	$ 1,392.7

18. Subsequent Events

On January 31, 2003, the Federal Court of Appeal rendered a favourable decision, dismissing in its entirety the Competition Bureau's latest appeal with respect to the Superior/ICG merger, which took place December 7, 1998, when Superior acquired ICG, a major retail propane distributor. In its decision, the Federal Court of Appeal confirmed that the Competition Tribunal, in its re-determination decision rendered on April 4, 2002, properly followed the direction of the Federal Court of Appeal and correctly applied the facts of the case to the law, permitting the Superior/ICG merger on the basis that the efficiency gains from the merger are greater than and offset the effects of the potential lessening of competition.

In February 2003, the Fund announced it would be changing its legal name from the Superior Propane Income Fund to the Superior Plus Income Fund, effective February 26, 2003.

19. Comparative Figures

Certain reclassifications of prior year amounts have been made to conform to current year presentations.

Selected Historical Information

Selected Historical Information — Propane Retailing Business

(millions of dollars except litres of propane and propane sales margin)

	2002	2001	2000 [1]	1999 [1]	1998 [2]
			Years Ended December 31		
Litres of propane sold from continuing operations (millions of litres)	1,688	1,733	2,058	2,078	1,277
Propane sales margin (cents per litre)	14.8	15.0	13.2	12.5	14.5
Gross profit [3]	290.7	300.7	321.7	306.5	206.4
Cash operating, administrative and cash tax costs	177.6	196.7	222.4	221.7	130.3
Cash generated from operations before changes in net working capital	113.1	104.0	99.3	84.8	76.1 [4]
Maintenance capital expenditures, net	3.0	4.1	7.1	7.5	9.6
Operating distributable cash flow	110.1	99.9	92.2	77.3	65.5 [4]

[1] Includes ICG's operations on a combined basis.
[2] Presented as if the Fund held 100% ownership of Superior.
[3] Includes gross profit from other service revenues and third party transportation.
[4] Includes distributable cash flow of $4.2 million from the December 7, 1998 acquisition of ICG.

Selected Historical Information — Pulp Chemicals Business (unaudited)

(millions of dollars)

	2002	2001	2000	1999	1998
			Years Ended December 31		
Total chemical sales (metric tonnes "MT")	543.8	538.4	539.7	509.5	466.8
Average chemical selling price (dollars per MT)	612.0	593.7	544.8	522.5	573.1
Revenues	361.9	351.8	338.6	308.2	307.1
Cost of goods sold	181.4	172.2	165.3	150.0	138.8
Gross profit	180.5	179.6	173.3	158.2	168.3
Cash operating and administrative costs	86.6	75.2	78.8	82.0	85.4
Cash generated from operations before changes in net working capital	93.9	104.4	94.5	76.2	82.9
Maintenance capital expenditures, net	12.6	11.1	11.5	9.9	16.0
Operating distributable cash flow	81.3	93.3	83.0	66.3	66.9

Corporate Information

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Officers
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Market Capitalization: $1.3 billion

As at February 28, 2003

Superior Quality and Growth

Listing: TSX Symbol:	SPF.un	SPF.db	SPF.db.a
Security:	Trust Units	8% Convertible Unsecured Subordinated Debentures convertible at $16/trust unit	8% Convertible Unsecured Subordinated Debentures convertible at $20/trust unit
Outstanding:	48,532,906	$58,830,000	$250,000,000
Distribution rate: Payable:	$0.16 per month* 15th day of each month	8% coupon January 31 and July 31	8% coupon May 1 and November 1
52-week trading range	$17.25 – $21.49	$100.04 – $133.01	$100.50 – $109.00

*The Fund intends to maintain its current monthly distribution rate. Any remaining undistributed cash flow in respect of a fiscal year is distributed to Unitholders with the April 15th payment of the following year. Superior's policy is to pay out 100% of cash generated from operations less maintenance capital expenditures.

Printed in Canada

Designed and Produced by Merlin Edge Inc.

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Income Fund

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